

## **SPECIAL TAX NOTICE REGARDING PAYMENTS FROM 403(b) TAX SHELTERED ARRANGEMENTS**

This notice contains important information you will need before you decide how to receive your benefits from your 403(b) plan. A payment from a 403(b) Plan that is eligible for "rollover" can be taken in two ways. You can have all or any portion of your payment either 1) PAID IN A "DIRECT ROLLOVER" or 2) PAID TO YOU. A rollover is a payment of your plan benefits to your individual retirement arrangement (IRA) or to another employer's 403(b) plan. This choice will affect the tax treatment of the distribution you are now electing.

If you choose a DIRECT ROLLOVER:

- Your payment will not be taxed in the current year and no income tax will be withheld.
- Your payment will be made directly to your IRA, or, if you choose, to another employer's 403(b) plan that accepts your rollover.
- Your payment will be taxed later when you take it out of an IRA or other employer's 403(b) plan.

If you choose to have your 403(b) plan benefits PAID TO YOU:

- You will receive only 80% of the payment, because the Payer is required to withhold 20% of the payment and send it to the IRS as income tax withholding to be credited against your taxes.
- Your payment will be taxed in the current year unless you roll it over. However, if you receive the payment before age 59-1/2, you also may have to pay an additional 10% tax.
- You can roll over the payment by paying it to your IRA or another employer's 403(b) plan that accepts your rollover within 60 days of receiving the payment. The amount rolled over will not be taxed until you take it out of the IRA or other employer's 403(b) plan.
- If you want to roll over 100% of the payment to an IRA or another employer's 403(b) plan, you must first find other money to replace the 20% that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER. Payments from a 403(b) plan may be "eligible rollover distribution." This means that they can be rolled over to an IRA or to another employer's 403(b) plan that accepts rollovers. The following types of payments cannot be rolled over:

- A. Non-taxable Payments. In general, only the "taxable portion" of your payment is an eligible rollover distribution. If you have made "after-tax" employee contributions to the Plan, these contributions will be non-taxable when they are paid to you, and they cannot be rolled over. (After-tax employee contributions generally are contributions you made from your own pay that were already taxed.)
- B. Payments Spread Over Long Periods. You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:
  - your lifetime (or your life expectancy), or
  - your lifetime and your beneficiary's lifetime (or life expectancies), or
  - a period of ten years or more.
- C. Required Minimum Payments. Beginning in the later of the year after you reach age 70 1/2 or retire (or age 75 with respect to your 12/31/86 account balance), a portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you.

II. DIRECT ROLLOVER. You can choose a direct rollover of all or any portion of your payment that is an "eligible rollover distribution", as described above. In a direct rollover, the eligible rollover distribution is paid directly from a 403(b) plan to an IRA or another employer's 403(b) plan that accepts rollovers. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or the other employer's 403(b) plan.

- A. Direct rollover to an IRA. You can open an IRA to receive the direct rollover. If you are unsure of how to invest your money, you can temporarily establish an IRA to receive the payment. However, in choosing an IRA, you may wish to consider whether the IRA you choose will allow you to move all or a part of your payment to another IRA at a later date, without penalties or other limitations.
- B. Direct Rollover to a Plan. If a new employer that has a 403(b) plan employs you, and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. An employer plan is not legally required to accept a rollover. If your new employer's 403(b) plan does not accept a rollover, you can choose a direct rollover to an IRA.
- C. Direct Rollover of a Series of Payments. If you receive eligible rollover distributions that are paid in a series for less than ten years, your choice to make or not to make a direct rollover for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

III. PAYMENT PAID TO YOU. If a payment is made to you from any 403(b) plan, it is subject to 20% income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another employer's 403(b) plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

- A. Mandatory Withholding. If any portion of a payment that is made from a 403(b) plan is an eligible rollover distribution, the 403(b) plan making the payment is required by law to withhold 20% of that amount. This amount is sent to the IRS and is credited against any income tax you owe for the year.
- B. Voluntary Withholding. If any portion of a payment from a 403(b) plan is not an eligible rollover distribution, the mandatory withholding rules described above do not apply and you may elect not to have any tax withheld from that payment.

IV. SIXTY-DAY ROLLOVER OPTION. If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to an IRA or another employer's 403(b) plan that accepts rollovers. If you decide to roll over, you must make the rollover within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the IRA or other employer's 403(b) plan. You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the IRA or the employer's 403(b) plan to replace the 20% that was withheld. On the other hand, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

V. ADDITIONAL 10% TAX IF YOU ARE UNDER AGE 59 1/2. If you receive a payment before you reach age 59 1/2 and you do not roll it over then, in addition to the regular income tax, an extra tax equal to 10% of the taxable portion of the payment will be due unless an exception applies. See IRS Form 5329 for more information on the additional 10% tax.

This notice summarized only the federal (not state or local) tax rules that might apply to payments made from a 403(b) plan. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you elect to take a payment of your 403(b) plan benefits. Also, you can find more specific information on the tax treatment of payments from your 403(b) plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office or by calling 1-800-TAX-FORMS.